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ON THE LIQUIDITY OF INDUSTRIAL ENTERPRISE

By ICHIRO OTSUKA

1. FOREWORD

Among the various industrial and economic phenomena attendant on the process of war economy, which, seen from the angle of such economy, are entitled to special treatment and study because of their inherent practical importance but which in actuality have not yet received such treatment, is found the phenomenon of the liquidity of industrial enterprise. True, this phenomenon is nothing new, for it has remained one of the practical economic problems because of its very nature from the remote past, since the days when national economy of circulation structure and business organization of market production began. This is especially so in the case of the banking business. However, the fact stands that it is only in Germany that it has been receiving special treatment as a general economic phenomenon in all branches of industrial enterprise and as a problem of the science of business management.

Now, the viewpoint from which this phenomenon is taken up by the science of business management in Germany is identical in nature with that from which it is observed in practical economic life. In other words, the German science of industrial management defines industrial enterprise as an organization unit of circulation economy having as its highest task the persuance of the highest possible profit-making, and this definition embraces the view that the form of its fundamental existence is determined from inside industrial enterprise by two opposing demands, namely security for its own existence and the maintenance and expansion of its yielding

power. Some scholars show a degree of dissimilarity in tone, but such is their fundamental attitude common to all. This scholastic attitude is bound to make the composition of the property of an industrial enterprise and its capital the object of an analytical examination on the basis of these two opposing demands. The existing German science of industrial management has found the liquidity of industrial enterprise in such a field of vision. The main stand taken by this science is the economic interests of private economy. To speak more concretely, only the economic standpoint of individual creditors against industrial enterprises and that of the existence and profit-making of enterprises themselves caused the science of industrial management to take up the liquidity of industrial enterprise as a subject of its study. However, present-day science of industrial management must advance its treatment of this phenomenon as well as other general economic phenomena beyond such a traditional attitude and its restricted vision. A new development must be shown as regards the viewpoint from which the liquidity of industrial enterprise should be observed.

The intensification and prolongation of war in scale and duration must bring the realization that the two greatest tasks of war economy, namely, the prevention of price inflation and production expansion can only be given their solution essentially in their close relations with the industrial management. The problem in this wise will be taken up at the outset as a highly technical issue. This means that its pivotal point is grasped only within material and quantitative and qualitative fields of vision. In actual practice, only the problems of resulting quantity and quality are mainly taken up as issues, while means employed and methods adopted are apt to be given a comparatively slight consideration. At any rate, the war-economic significance of considering industrial enterprise in its monetary relations will be often neglected or even at times positively rejected. However, it will be increasingly recognized that the fundamental need of solving the problems of war economy will reveal the truth that the

concrete solution of the problems has a phase which can never be explained adequately by the mere observation of quality and quantity involved, because it is closely bound up with the industrial management as a whole. It will be observed that there exist economic problems, monetary problems in particular, around industrial enterprise. We have reached the stage where due recognition is about to be given to the fact that the realization of production expansion is dependent on the high-degree utilization of various means of production as its primary requisite. We are constrained to ask the question as to how the various means of production in the industrial enterprise can be utilized in order to assure the highest possible industrial efficiency. An examination of this problem will prove the key to the solution of war production. From the same standpoint, a re-examination must be made into the treatment of various problems attending on industrial enterprise. When the matter is regarded from its economic relations only, it will be found that the predilection observation from quantity must be supplemented by an observation of monetary economy as an important issue. As has been already pointed out, the liquidity of industrial enterprise has been taken up mainly as a problem concerning the interests of industrial capital. But the time has come when it must be asked whether or not this problem may not contribute to the solution of the urgent problem of production expansion, as all means of wartime production must be strengthened. Thus, a new vista is about to be opened up for the liquidity of industrial enterprise. Thus, it is evident that it will give rise to various new economic problems of utmost importance, but their profound investigation should be preceded by the clarification of the concept of the liquidity of industrial enterprise, especially in view of the fact that there has been no definite concept regarding this matter. It is the purpose of the present article to consider the problems of this concept.

2. POSSIBILITY OF THE CONCEPT OF THE LIQUIDITY OF INDUSTRIAL ENTERPRISE

Because of the German word "Liquiditat", some scholars in Japan use the word "fluidity" in referring to the liquidity of industrial enterprise, but I am convinced that the term "liquidity" is a more fitting word to designate this economic phenomenon. I shall first consider how this concept came to be formed in the composition of industrial life.

The essence of industrial enterprise lies in its being a kind of an economic unit-structure which exists in the environments of national economy, presupposing environmental demands, and having as its highest task the continued realization of an independent and accounting production, in order to meet these demands. The life of industrial enterprise as such is regulated by its essence and begins when a definite amount of economic value as a basic means of productive process in an individual accounting ownership organization of circulation economy mechanism, is accommodated from some outside individual organization, reserved and offered for use. This economic value which primarily conditions the objective existence of industrial enterprise is called capital of enterprise.

Now, no word is more variously defined in economic science and economic common sense than this word. manifold indeed are the works on the criticism and clarification of the term "capital" both here and abroad. However, these divergent views may be grouped into two divisions or types when they are classified according to the economic function of capital. The first group regards the function of capital as a means of profit-making, while the other considers it as that of production. The latter regards capital as a production means having as its unavoidable prerequisite its own disposition of preparation as a special economic use, so that both the productive use of permanent materials (which are productive means requiring the lapse of time for its complete efficacy) and the execution of production (also

requiring the lapse of time for its completion) may become possible. In other words, this view considers capital as an economic value of abstract form which is a fundamental factor for enabling the real and effective use, utility and disposition of various special means of production such as machinery, raw materials and labor, although capital itself is not such a concrete means of production. If this view of capital is adopted, its economic function beyond the restriction of the so-called capitalistic production composition having as its highest and primary object the self-expansion of individual capital, will be recognized. This meaning of capital was in mind when I stated that the life of an industrial enterprise begins when a definite amount of capital is reserved and utilized as a means of production which is carried on therein in an individual accounting ownership organization.

Although capital is a productive means which functions as a basic factor enabling through its disposition and use the productive combination of various definite and concrete means, it does not itself function as a technical means which is restricted by some intrinsic, definite and concrete form. The real substance of capital is no other than an economic value of abstract form. When capital having such a quality as noted above is utilized and reserved by an accounting organization of individual ownership which is the place of production in the first stage of the formation of an industrial enterprise, it is supplied essentially to that organization by some other outside agency. It is immaterial whether or not such an outside organization which supplies capital is controlled by the organization which receives it. At any rate, all basic industrial capital is supplied to an accounting organization of individual ownership by another agency which does not belong to the former organization. When capital is supplied in this wise, it usually takes the form of money. This is because money functions as a general medium of exchange or as a general means of payment in the case of the shifting of value between different individual

economic organizations, although capital is simply an economic productive factor in its essence and is not restricted in its existence by any definite or concrete form. Thus, in the first stage of the development of industrial life or in the first process of industrial expansion, capital in monetary form is supplied from outside economies to a particular accounting organization of individual ownership to be utilized thereby. The outside economy which supplies such capital may be either an industrial organization or domestic organization and is not necessarily of one form of organization. But what is important in this connection is the fact that, when a definite amount of monetary value is supplied to an industrial enterprise by some outside economy as capital, it is not supplied to counter some offer made by that enterprise.

To this statement, some may object saying that capital is supplied as a counter offer to the payment of interest or profit by an industrial enterprise. But it is clear that counter offers in such a sense are no other than the use of capital, that is, the disposition of capital in some interval; and the original amount of capital never is supplied to an industrial enterprise in any relations of cancellation against the offer of any equivalent value. Therein lies the important feature or characteristic of the payment relations of capital, unlike other payment relations among different economies. Thus, when capital is supplied to some industrial enterprise, whether it be its own or otherwise, that enterprise bears the liability in an economic sense against that capital. In other words, that enterprise must return that capital in some form to its original possessor within some period of time. The period may be limited or unlimited but in all cases the accommodation of capital means the shouldering of liabilities for industrial enterprises. This is a common phenomenon for all enterprises in which capital is invested. The difference between one's own capital and some other's capital is seen not only in whether or not its original possessor is the same as the subject of an industrial enterprise but also in the fact that, whereas the period of the disposition of capital given

to an industrial enterprise is indefinite in the case of the former, it is limited in the case of the latter. At any rate, basic capital (excepting self-accumulated reserves and surplus capital) means indebtedness. Consequently, to possess capacity for outside payments regarding capital is an essential condition shouldered by an industrial enterprise. This is clear enough in the case of an outsider's capital, but seen from the essence of economic relations, self-possessed capital cannot escape the same condition. The return of capital or its withdrawal from an industrial enterprise must essentially be made in monetary form as in the case of the accommodation of capital. In short, the reservation of capital is the first condition of the formation and existence of an industrial enterprise; and the reservation of capital, the accommodation of outsider's capital in particular, places the liability on the enterprise to make payments to the source of its original supply by monetary means within some period of time.

We have above seen the fact that an industrial enterprise is subjected to monetary conditions regarding its capital from the first stage of its formation and establishment. Nor are such conditions limited to the accommodation of capital. We have already seen that the accommodation of capital is made by means of monetary form which is a general means of payment. Now, it should be noted that monetary capital possesses the highest degree of abstractness among all forms of capital. For this reason, when an industrial enterprise is in the stage of reserving its monetary capital, it has not yet possessed any concrete and positive character but remains only an abstract debtor. In order that capital realizes its essence and an enterprise displays its productive function by developing its concrete substance, it is necessary that monetary means should change its character and should be utilized as a condition of complex and various concrete productive means and their combined use. In other words, unless the accommodation of productive means and its united use of various concrete productive means should be made with the support of capital, the concrete development of an industrial

enterprise would not be realized. Some of the scholars of the science of industrial management regard an industrial enterprise, as seen from the above abstract and negative phase, as an intrinsic enterprise (Unternehmung). These scholars consider such an enterprise as not being a concrete business economy and thus distinguish between an enterprise and concrete business organization. I cannot share in their opinion because of its over-abstractness of the form of the concept of enterprise. I realize that the concrete realization of an industrial enterprise would not be possible, unless the capital of an enterprise should develop into various, definite and concrete forms from its monetary form. An enterprise in such a state has only a negative existence as an organization for bearing liabilities to outside economies and does not have any positive substance of an organization charged with the task of productive realization, because there is not yet any concrete and positive process of production developed. The existence of a concrete industrial enterprise begins with the accommodation of various concrete forms of productive means and with their combined use.

Now, it will be noted that the form of development for capital from its monetary form to divergent definite forms in the process of industrial production is in a circle instead of a straight line. For at the time of the establishment or expansion of an industrial enterprise, money secured in the form of accommodated capital is used in getting from some outside economy such productive means of definite functions as personal, material, fixed, or fluid, tangible or intangible means. All this means that the capital is changed into various means of production in the first stage of its industrial transformation. These means of production will be utilized in combined forms of various descriptions according to the respective characteristics of different branches of industry under an industrial enterprise. In this case, part or the whole of capital value participating in these means of production will move into the newly created products. In other words, the existence of capital functions as an economic

basis for maintaining products within the enterprise. Without capital or if lacking sufficient amount, part or the whole of products cannot remain for a single moment in the industrial enterprise which has produced them. With the formation of products, the transformation of industrial capital will enter its second stage, but it further continues to change. Production by an industrial enterprise is not carried on for the sake of the direct consumption of those in charge of the enterprise, but its products must be supplied to outside economies, because production itself is intended for the satisfaction of demands by outside economies. An industrial enterprise receives a counter offer of an equivalent value when it supplies products to outside economies in its position of being an independent unit of economic organization, and this counter offer is made in monetary payments from outside economies to the enterprise. Thus, capital becomes money after its third transformation. Capital here is returned to its original form and the enterprise receives it in money for a second time in a cycle of production or transaction process. But what should be noted in this connection is the fact that monetary capital which is regained by means of the transformation of capital form and in consequence by the circle of industrial productive process, is given out not in the form of capital supply from outside economies to the enterprise, but as the acquisition of proceeds from sales (Erlös). Sales made in each circle in principle must include at least the whole amount of value included in the circulating productive means which participated in the production of goods sold to outside as well as part of the value of continuous means of production. Thus, the money which is acquired by an enterprise at the last stage of the circle of productive process (transaction process) is again used in the acquisition of various definite means of production. (In the case of permanent materials, the part consumed is reserved and the renovation of equipment is made after a definite interval). Thus, the circulation of capital in production is made anew.

In this way, an industrial organization is enabled to carry on a continuous smooth cycle of production as demanded by outside economies. The industrial enterprise once entering a continuous process of repetition acquires various definite means of production from outside economies by means of money gained by its selling of products, and further acquires monetary means by supplying goods made by the combined use of these productive means to outside agencies for remunerations. Thus, it will be seen that an enterprise enters into contact relations of value-exchange with outside economies twice in each stage of its productive process, and one phase of value movement in these contact relations has a monetary form. At first one phase is seen in the circulation of money from an enterprise to outside and another phase is seen at the end in the circulation of money from outside to the enterprise. The former circulation of money is a prerequisite for enabling the acquisition of productive means which is essential for the formation of industrial products, while the last circulation of money is the source of monetary acquisition which assures the repetition of the former circulation of money. Thus, the basic conditions for assuring the smooth repetition of production for outside demands as well as the continuous existence of the enterprise itself will be the smooth realization of the movement of monetary exchange on two occasions in the relations of mutual dependence in industrial processes. In other words, in order to acquire productive means, the reservation of money as their compensation must be made, and in order that such monetary reservation may be made, goods produced must be sold at prices at least above the production cost. Unless this be made, the continuous existence of the enterprise would become impossible.

We have seen in the outset of the present discussion the fact that the industrial unit of economic organization bears the liability of making monetary payments to outside with regards to its capital because of the essence of its very establishment. We have just seen that the enterprise also

bears a similar obligation of making monetary payments to outside as regards the acquisition of productive means, and that this obligation repeats itself. These conditions on the enterprise to make monetary payments is based on the essence of its very existence. Unless such monetary payments in two economic relations are made smoothly and without default from time to time in concrete forms, the collapse, diminishment, setback and deadlock of the enterprise will be unavoidable. If the healthy and continuous existence of an enterprise is demanded, it follows that there will arise an important problem in industrial life concerning the possibility of releasing the obligation of monetary payments in these two sets of relations. Therein lies a real and living basis for the formation of the concept of industrial liquidity.

3. THE CONCEPT OF THE LIQUIDITY OF ENTERPRISE.

In the absence of any uniform concept of the liquidity of industrial enterprise, an adequate treatment of problems attending on this subject should be preceded by a re-examination, adjustment and re-composition of various concepts of this economic phenomenon, in order to clarify and elucidate its real meaning. We have already seen how the concept of the liquidity of enterprise is formed in the process of various industrial and economic interrelations. I shall now first formulate the broadest possible concept as well as a special concept to be placed subservient to the former, in my attempt to make the formation of orderly concepts regarding this phenomenon.

(1) The broadest concept of the liquidity of enterprise. We have already seen that an enterprise is obliged to make monetary payments to outside agencies in connection with both the accomodation of capital and the acquisition of productive means of some definite forms and that the release of this obligation is an unavoidable and basic condition for

satisfying the demand for the sane existence and development of the enterprise; this obligation can be released only by the reservation of monetary payments in appropriate amounts. These monetary payments may take various forms, each of which may have its own definite industrial meaning. But we shall ignore these various definite forms of the obligation of monetary payments by taking it in an abstract and general form. We can take up the monetary economic expression of the living capacity of an enterprise seen in the contrast between its obligation to make monetary payments from time to time and the monetary reserves the enterprise possesses from time to time as a means of releasing this obligation. In other words, we can make an issue in a general form of the capacity possessed by an enterprise of releasing its obligation to make monetary payments from time to time. The concept made in this case on the industrial living capacity of such abstract form as the basic factor is nothing but the broadest concept of the liquidity of industrial enterprise.

(2) Capital liquidity. The obligation of monetary payments may take various forms. First, I wish to take up one particular form, namely, obligation of payments in connection with capital. As regards capital which is invested, loaned or entrusted to an enterprise on the condition of some gain for its use, that enterprise stands on a negative position of bearing a debt obligation. Interest paid or profit given is for the use of capital for some period of time, so that capital is not supplied to an enterprise as a counter offer like payment for commodities. Thus, an enterprise should be prepared to make payments in case demand for the withdrawal of capital should be made upon the arrival of its period of redemption. Since capital by others is supplied usually for some limited period of time, there is no question that the obligation of making monetary payments becomes a real problem. But also in the case of self-supplied capital, excepting that part which is a surplus accumulated in the production process, its economic source must have its exis-

tence in some outside element, and for this reason the enterprise even in such a case has the obligation to make payments economically regarding its capital. However, the only difference in this case is that the period of payment is usually uncertain and the obligation of payment is not carried out except in the case of the dissolution of the enterprise. Moreover, in the case of individual enterprises, such an obligation does not take a legal form. For these reasons the existence of the obligation of making payments in the case of self-supplied capital is often forgotten. But there is no doubt of the existence of such an obligation for capital, when one discards one's engrossment with legal form and takes an economic viewpoint of the situation.

Thus, an enterprise should always stand in readiness to make payment by monetary means in order to release its obligation upon the arrival of the time limit for its legal or economic fulfillment. When this redemption of capital is impossible or unexpected by an enterprise, its formation to begin with would be impossible, nor can it secure capital from others. Moreover, in actual practice, when the fulfillment of such an obligation becomes impossible owing to a deficiency of means of payments, the existence of the enterprise will come to an end. Thus, there appears the problem of the living capacity of an enterprise in the relations of contrast between the amounts of payments to be obligatory to the enterprise from time to time for its capital and the amounts of monetary payment reserves of the enterprise. The payment capacity of an enterprise regarding its general capital in such a sense as above stated can be grasped by means of the concept of the capital liquidity of the enterprise.

There are two cases in industrial life relations in which capital liquidity become an issue: the first is capital liquidity at the time of the dissolution of an enterprise and the other is capital liquidity during the operation of the enterprise. In the former case, all capital excepting that which has been accumulated within the enterprise must be returned to its

outside economic source and for this reason capital liquidity becomes an issue not only for capital supplied by others but also the self-supplied capital. Of course, preference must be given to cases in which capital supplied by others is involved to that which is supplied by the enterprise itself. In this latter case, capital liquidity will be formed and expressed in contrasted relations between the amount of value in monetary form of all the property of the enterprise and the amount invested or accommodated by the enterprise itself as well as by others.

On the other hand, capital liquidity during the operation of an enterprise has a different substance from liquidity on the occasion of the dissolution of the enterprise in respect to both its obligation to make payments to outside and means of payment both of which are its component factors. In other words, in the case of capital liquidity during the existence of an enterprise, except the special case of capital reduction, there arises no issue about capital liquidity for self-supplied capital; only the liquidity regarding capital supplied by others as either loans or as entrusted funds to the enterprise on the condition of gains for its use, will become an issue. And in this case, the property to be reserved for payments as an element of liquidity will not be in the normal operation of the enterprise the entire property of the enterprise but only the so-called circulating property which is united with the fixed property of the enterprise thereby forming the entire property belonging to the enterprise. By circulating property is meant such property as being capable of turned into means of payments within a short time without making any sacrificing difference with the amount of value given in the account book. Cash possesses the highest circulating power as a primary means of payments. Deposits with banks situated nearby and post office deposits come next to cash as property with high-degree circulating power. Others such as negotiable bills of various kinds, commodities and raw materials transacted are also kinds of circulating property. Usually during the operation

of an enterprise its periods of redemption of capital supplied by others come in a systematic time order and at each time capital liquidity becomes an issue.

Capital liquidity during the operation of an enterprise which derives its capital from others, becomes an issue with industrial and commercial enterprises which are engaged in the business of supplying some definite and concrete material goods or use to some outside economy, but it becomes an issue of especial significance with the banking enterprise. Banks, especially credit banks, are engaged in accumulating capital from outside economies in the form of trust fund and in accommodating it to those in need of it for their use by utilizing outside confidence in their capacity of payment. In other words, they are engaged in undertaking the social circulation of capital as their essential function. It is one of the essential phases of the functions of banks to accumulate capital on trust by means of outside confidence in them. For this reason, utmost importance should be attached to the basic condition of their own existence as to their capacity of making payments smoothly and without hitches of funds they are entrusted with, upon the arrival of the periods of their redemption or at the demands of their repayment. In other words, capital liquidity becomes an essential problem for the banking enterprise, because liquidity which becomes an issue with banks essentially takes the form of capital liquidity. For banks to have the capacity of satisfying the demand for the withdrawal of others' capital at any time without hitches, or the principle of liquidity demanded by the highest order of "normal reserves" for banks will be one of the principles of the management of banking enterprise having relations with capital liquidity we have defined already. It must be noted, of course, that it is only one phase of the business of banks to accumulate capital belonging to others on the basis of their confidence in their payment capacity, for they must also accommodate funds to those demanding them. Now, banks are confronted by two contradictory tasks: first, they must maintain payment reserves

for funds deposited by others whose demand for repayment may come at any time. (It is said that even in the case of storage deposits having definite periods in actuality the period of their withdrawal is uncertain). On the other hand, banks are required to accomodate capital to enterprises in which they must wait the lapse of much time before they can withdraw it in order to promote industrial production. These contradictory tasks of banks are due to the essence of their functions. Therein lies the essentially difficult problem of the liquidation of the banking enterprise.

There are three different phases of the problem of capital liquidity for banks. The first phase concerns the reservation of monetary payments against the normal withdrawal of deposits; the second phase concerns the reservation of monetary payments for the purpose of clearing the bills of exchange among banks; the third phase concerns the payment reservation against demands for payment other than the foregoing two cases or demands of untimely repayments. Although it has been pointed out that it is most difficult to distinguish these three cases of demand in actual practice, it is possible to distinguish them conceptually. Moreover, their distinction will enable the precision of ideas in studying the problem of liquidity for banks.

At any rate, as has been already stated, capital liquidity is an essential manifestation of general liquidity in the banking enterprise and at the same time an essential form of liquidity in general which is a matter of concern for the capital creditors of enterprise. Thus, the concepts of liquidity entertained by the students of bank management or by those who study the balance sheets from the viewpoint of executing liabilities will be limited to the so-called capital liquidity the meaning of which we have explained. For instance, Linhardt defines liquidity as the condition of payment reserves which is expressed by the contrast between the indebtedness whose period has either come or is approaching and money or some form of property which is easily convertible to money. Gerstner finds the essence of

liquidity in the full possession of means in order to avoid the tightness of payment for an indebtedness about to fall due, or in the capability of full and immediate payment. Again, Kalveram considers the liquidity of banks is expressed in the percentage of the circulating property or property capable of immediate conversion to cash to an enterprise's total amount of debts. All these views of scholars indicate the utmost importance attached to capital liquidity. But it should be noted that, while capital liquidity is an essential liquidity for banks, it is confined to only one category of the liquidity of enterprise.

(3) The concept of liquidity as meaning the monetization of property. Explanation so far makes it clear that the concept of liquidity is a relative concept. The substance of liquidity is formed by an enterprise's capacity of making reserves for payment by monetary means from time to time against the debts the period of whose redemption has come or approaching. In other words, the substance of liquidity consists in the opposing relations between an enterprise's obligation of debt payment from time to time and reserves against its payment. This is seen in the concept of liquidity held by Nicklisch for he and the scholars of the same school of thought with him hold that liquidity is found when the whole or part of an industrial property possesses a capacity of easy and speedy monetization. He defines the content of liquidity as an inherent and special quality of each property possessed by an enterprise, instead of finding it in the relative capacity of the enterprise capable of coping with the obligation of payment to outside by monetary means. He is of the opinion that in everyday terminology, the concept of liquidity is connected with indebtedness, particularly capital supplied by others whose period of redemption is approaching, thereby showing the extension of the original meaning of the term "liquidity", which denotes the circulating capacity of property. So far each person may be permitted to have his own opinion. But the meaning of Nicklisch will be unintelligible unless his concept of liquidity should

be interpreted as meaning the capacity of an enterprise to repay its debts, the period of which has come or is near at hand, by monetary means out of its property, because he defines the degree of liquidity as proportional relations between part of the property which is easily converted into monetary form and the amount of debts about to become due. He declares that the degree of liquidity thus defined in substance indicates whether the circulating property of an enterprise is equal to in excess of or deficient to the amount of debts the periods of which arrive from time to time. However, such views will be intelligible only when liquidity is understood as consisting in the capacity of an enterprise to repay its debts by means of its property. When Nicklisch says that the degree of liquidity is the indication of the percentage of the circulating property of an enterprise to the amount of its debts to be settled nearby, he is in fact unconsciously admitting that he himself regards liquidity not as an absolute concept of the capacity of monetization on the part of property but as a relative concept of proportional relations between an enterprise's condition of indebtedness and its property condition from time to time. The fact that an entire property is circulating in itself does not in any wise directly indicate its capacity for debt payment. He says that indebtedness is the basis that creates concern with the liquidity of an industrial property and that in consequence the degree of the monetization capacity of property is measured by a contrast between industrial property and the amount of its indebtedness. But, if liquidity is an absolute concept, it must be said that the degree of liquidity must be measured by the proportion between the total property and the amount of its circulating portion. But, if the degree of liquidity should be indicated by its proportion to the amount of indebtedness, it will not be measured by indebtedness on the monetization of the property of an enterprise. On the contrary, it must indicate the degree to which an enterprise can settle its indebtedness by its monetary means of payment upon the arrival of its

period, in case the circulating portion of its property should be converted into money. In short, Nicklisch's concept of liquidity is betrayed by his own explanation, when its unreasonable substance is analyzed. We cannot share his idea of liquidity which regards it as an absolute and material concept of the payment capacity of property. Liquidity must be interpreted as a monetary industrial capacity which is grasped in its relations with indebtedness. I am of the opinion the idea of Leitner is far more rational than that of Nicklisch, because although both take up the capacity of the monetization of property, the former calls this capacity "fluidity" (Flüssigkeit) by way of distinguishing it from liquidity which is defined as the relation between the payment capacity of an enterprise or its property and its indebtedness.

(4) The liquidity of production factors. So long as an enterprise maintains its own independent existence as the unit organization of productive economy, it occupies the position of a debtor concerning capital invested in it whether it be its own or supplied by others. Thus, the important problem is over its preparedness to cope with the demands for the withdrawal of capital upon the arrival of its period of investment by means of monetary payments, from the standpoint of both the original possessor of capital and that of the enterprise itself. This is especially important for banks as their very existence hangs on this problem. Thus, the industrial and economic importance of capital liquidity is self-evident.

However, the necessity for reservation of monetary payment in enterprise economy does not have its ground only in its relations with the demands for the payment of capital. Nay, such a necessity in the case of some branches of industry engaged in the supply of some definite and concrete material goods or service with the exception of banks, has its more important ground in phases other than those connected with demands for the payment of capital. In other words, the liquidity of enterprises does not become actualized

only as capital liquidity.

Primarily speaking, the amount of an enterprise's debts the payment of which is demanded from time to time, as well as the degree of reserves for their payment, can be grasped by means of the balance sheet which may be prepared from time to time. However, there are continuous and repeated demands for the payment of large sums of money which are of such a character that they do not appear on the balance sheet but take written form in the accounting sheet only after they have become actualized. Against the payment of such demands, an enterprise should be always be ready with its means of payment.

Now, how is it that such demands for payment come to be made? The answer for this should be made. In the first place, in an industrial enterprise, its various factors of production are operated in repetition and in their combined acts, and thus its own continued existence is maintained. In other words, an enterprise is enabled to maintain its own existence by means of the continuous supply of various factors of production and through their utilization; and further, the enterprise is enabled to fulfill its essential function of satisfying the demands of outside economies. But how are these various factors of production which are nurturing the continuous activities of an enterprise accommodated? They are supplied to the enterprise by outside economies for economic remunerations. For this reason, an enterprise should prepare means of payment for these factors of production in order to assure their continuous supply and its own existence, and should possess a capacity for accommodating such means of payment. An enterprise will have to prepare monetary payment every time demand is made for payment for the accommodation of such factors of production which are essential to the maintenance of its continuous existence, so that it can pay for them instantaneously or within a given period of time, if such a period is specified. If its preparation for this payment is impossible or inadequate, the process of its continued supply of the factors of

production will be crippled either entirely or partially. Therein is found the reason for the possibility of the monetary economic indication of the enterprise's power of existence as a unit organization of production in the proportion between the monetary amount of demands required for the supply of these factors of production from time to time and the amount of monetary reserves for them. The reservation of monetary means of payment for demands of the supply of these factors of production is, indeed, the basic ground for the continuous existence of an enterprise. Moreover, this obligation of payment, especially in connection with the circulating factors, unlike a similar obligation for capital payment, is repeatedly made; and for this reason, its monetary reservation for the former constitutes a more important problem than that for the latter. This is not only because demand for payment by the latter does not occur in repetition as in the case of the former, but because the stand of these who demand for the former payment are inseparably bound up in economic interest with the enterprise itself, and for this reason the effect on the enterprise in the case of the former will be more profound than in the case of the latter. Of course, we have already seen that all this is different in the case of banks having as the essential basis of their existence the confidence of outside economies in their capacity of capital payment. On the contrary, there are many and various enterprises whose existence is circumscribed by their capacity of reservation against the supply of the factors of production and whose varying degrees of this capacity affect very materially the utilization of such productive factors and other phases of industrial life in general. The essence of obligation of payment in these enterprises is seen more extensively in the cases of their industrial factors of production rather than in the case of their capital. Therein lies the chief monetary economic reason for separating the banking enterprise from other kinds of enterprise such as industrial and commercial.

Thus, it is clear that in enterprise economy, obligation

for payment against whose reservation of monetary means of payment constitutes the enterprise's very condition of existence, will be found to exist not only as regards capital but also as regards production factors as well. It is because of this circumstance that the concept of the liquidity of production factors as a lower concept to the broad concept of liquidity becomes possible or formation. Thus, by the liquidity of production factors is meant the reservation capacity of an enterprise in proportion to the amount of money needed in satisfying demands for the accomodation of production factors from time to time which is necessary for the smooth and continuous maintenance of production activities by the enterprise. Thus, the essence of the liquidity of production factors lies in monetary economic reserves that assure the smooth accomodation of production factors to an enterprise. The question as to whether the maintenance of such assuarance, or the realization of the liquidity of production factors, will be difficult or impossible of actualization, or whether it will be carried out excessively or normally or equitively, will largely determine the existence of an enterprise. For, as has been already stated, the liquidity of production factors is the basic condition for the existence of an enterprise. In fact, it may be said that the liquidity of production factors represents the supreme conditional principle controlling the continuous activities of an enterprise and is manifested and grasped in the phase of monetary economy.

There are two ways by which an enterprise may satisfy demands for means of payment in order to secure production factors: first, to get new capital and secondly to supply its products to the outside in return for remuneration. Whereas the first method is employed at the time of the establishment and expansion of an enterprise; the second method is used during the normal existence of the enterprise. There are many forms of payment for its production factors as an essential condition of its existence. An enterprise must pay for such items as labour, raw materials, fixed equipment

and establishments, outside mixed service, etc. Nor is the enterprise's obligation to pay limited to these definite and concrete factors, for it must shoulder an obligation to pay regarding the use of capital and the maintenance of its own industrial utility, not to mention the payment of capital itself. Such payments become a problem of the liquidity of production factors just as in the case of concrete and tangible factors given above. In other words, both interest and profit become important elements of the liquidity of production factors in contradistinction with capital liquidity. This fact will have a powerful significance in observing the liquidity of enterprises under the necessity of existing wartime economy; of promoting production expansion, and of the prevention of inflation, but I wish to take this particular phase of the problem on some future occasion.

4. CONCLUSION.

I have tried to show that an enterprise bears an obligation of making payments to outside economies for the accommodation of its capital as well as its various factors of production, and that, in order to maintain smoothly the rotative existence of its own, the enterprise should solve the problem of satisfying demands for payment by means of payment reserved within its own hands. In these relations we find the monetary economic expression of existence-capacity for an enterprise. We have grasped this truth, by means the concept of the liquidity of enterprise. Thus, it may be said that liquidity offers the basic factor by which the concrete existence of an enterprise is determined from its monetary economic phase. Liquidity having such a vast importance must not be either excessive or deficit because of the demand for the healthy existence of the enterprise. It is highly important that there should be a well-balanced equilibrium between demands and their satisfaction by monetary means of payment during the circulating process of industrial production. The maintenance of such an equi-

librium or an appropriate liquidity should be one of the central objects of importance for adjusting the process of production. Why is such a state of equilibrium all important? Why and by what industrial relations do we see such phenomena as excessiveness, deficiency and propriety in liquidity? These are some of the vital problems that are asked of the science of industrial management regarding liquidity. Hitherto, the German science of industrial management has treated these problems from the standpoint of the enterprise for its own demands for existence and of the pursuit of capitalistic profit-making—or from the viewpoint of private economy of industrial enterprise. There is no doubt that these German studies made much contribution to the elucidation of various problems concerned. However, the existing demands for the expansion of production and the prevention of inflation under wartime economy is bound to bring out a new field of vision for this science, especially in connection with the problem of the liquidity of enterprise having such vital importance with production and the problem of money economy. The problem of liquidity is certainly one of the most interesting and vital issues for the science of industrial management. I have been unable to touch on this main thesis, as I have exclusively dwelt on the problem of the concept of this economic phenomenon, because I felt that the solution of such vital concrete problems of great importance must be predicated on a study of the general ideas of liquidity.